

Message Text

CONFIDENTIAL

PAGE 01 LAGOS 02457 141622Z

63

ACTION AF-06

INFO OCT-01 ARA-06 EUR-12 EA-06 NEA-09 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03

FEA-01 IO-10 /121 W

----- 053576

R 141519Z MAR 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 8415

INFO AMEMBASSY ALGIERS

AMEMBASSY CARACAS

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

C O N F I D E N T I A L LAGOS 2457

E.O. 11652: N/A

TAGS: ENRG, NI

SUBJECT: NIGERIA PRESSES FOR HIGHER OIL PRICES

REF: LAGOS 1081

BEGIN LIMITED OFFICIAL USE

1. WE UNDERSTAND FROM THE COMPANIES CONCERNED THAT THE NIGERIAN GOVERNMENT HAS BEEN PRESSING SHELL-BP, GULF, AND MOVIL SINCE MARCH 3 TO ACCEPT NEW TERMS FOR FIRST NINE MONTHS OF 1975 WHICH ACCORDING TO EMBASSY CALCULATIONS, WOULD INCREASE GOVERNMENT TAKE
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 LAGOS 02457 141622Z

ON EQUITY OIL ABOUT \$.78 A BARREL AND ON ALL CRUDE OIL (EQUITY

AND GOVERNMENT) ABOUT \$.10 A BARREL ABOVE DECEMBER 1974. SPECIFIC GOVERNMENT PROPOSAL IS TO ADOPT "STANDARD" OPEC ROYALTY RATE OF 20 PERCENT AND TAX RATE OF 85 PERCENT , PLUS NEW POSTED PRICE OF \$12.91 AND BUY-BACK PRICE OF \$11.78 PER BARREL. RESULT WOULD BE ONLY \$.15 DIFFERENCE BETWEEN WEIGHTED AVERAGE COST OF OIL TO A PRODUCING COMPANY (ASSUMING IT MARKETS ALL OF THE GOVERNMENT OIL THAT IT PRODUCES) AND THE GOVERNMENT'S DYUMVBACK AND THIRD-PARTY PRICES. TERMS OF THE PROPOSAL ARE MORE STRINGENT THAN THOSE ATTRIBUTED TO FMG IN JANUARY 27 ISSUE OF PETROLEUM INTELLIGENCE WEEKLY (REFTEL) WHICH RESULTED IN "COMPANY MARGIN" OF \$.22.

2. COMPANIES HAVE STRONGLY RESISTED THE PROPOSAL ON GROUNDS THAT DEMAND OR NIGERIAN CRUDE IS MUCH REDUCED SINCE DECEMBER AND PRICE , LIKE THAT OF ABU DHABI AND ALGERIAN CRUDES, SHOULD BE LOWERED, NOT RAISED. THEY ARE TALKING (APPARENTLY SERIOUSLY) ABOUT HAVING TO REDUCE PRODUCTION, SLASH FUTURE INVESTMENT, AND EVEN CEASE PRODUCTION IF FMG PREVAILS. AS ONE COMPANY SEES IT, FMG IS SEEKING TO APPLY PERSIAN GULF FORMULA TO NIGERIA AND AT LEAST MAINTAIN AVERAGE GOVERNMENT TAKE. THESE TWO GOALS INCOMPATIBLE WITH MARKET NOW AND IN FORESEEABLE FUTURE. SAME SPOKESMAN ADMITS CREDIBILITY PROBLEM BECAUSE COMPANIES HAVE RESISTED PRICE INCREASES IN PAST BUT ALWAYS WENT ALONG IN THE END (AND MADE EVEN HIGHER CORPORATE PROFITS). THIS TIME THE COMPANIES ARE USING WORDS SUCH AS "CRUNCH" AND "SHOWDOWN" AND EVEN TALKING ABOUT POSSIBILITY OF INVITING 100 PERCENT GOVERNMENT TAKEOVER.

3. ACCORDING TO COMPANY NEGOTIATORS, FMG HAS INDICATED ITS DESIRE RESOLVE PRICE ISSUE PRIOR TO APRIL 1 (WHEN GENERAL GOWON MAKES ANNUAL ECONOMIC SPEECH). NO MEETING BETWEEN FMG AND THE COMPANIES IS CURRENTLY SCHEDULED.
END LIMITED OFFICIAL USE, BEGIN CONFIDENTIAL

4. FYI. PART OF THE COMPANIES PROBLEM IS VASTLY INCREASED PRODUCTION COSTS. CALCULATIONS IN PARA 1 ABOVE ASSUME AVERAGE TECHNICAL COSTS OF ONLY \$.40 PER BARREL WHICH IS THE VALUE FMG NEGOTIATORS HAVE BEEN USING. HOWEVER, ACCORDING TO THE COMPANIES, REAL COSTS NOW AVERAGE ABOUT \$.80 PER BARREL. IT COST GULF OIL \$.63 TO PRODUCE AN AVERAGE BARREL OF OIL IN 1974 (AT A PRODUCTION RATE OF ABOUT 380,000 BARRELS PER DAY),
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 LAGOS 02457 141622Z

BUT THIS COMPANY NOW PROJECTS COSTS OF \$1.22 PER BARREL IN 1975 (AT THE CURRENT GOVERNMENT-IMPOSED RATE OF 230,000 B/D). MOBIL'S COSTS AVERAGED \$.84 PER BARREL IN XQOUR AND ARE NOW PROJECTED AT \$1.08 IN 1975. (THESE FIGURES CONFIDENTIAL AND SHOULD NOT BE DISCUSSED EVEN WITH COMPANIES CONCERNED.) END
FYI.
CROSBY

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, PETROLEUM, PRICES, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LAGOS02457
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: DG ALTERED
Executive Order: GS
Errors: N/A
Film Number: D750090-0890
From: LAGOS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750350/aaaabtbx.tel
Line Count: 115
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AF
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 LAGOS 1081
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 APR 2003 by KelleyW0>; APPROVED <14 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NIGERIA PRESSES FOR HIGHER OIL PRICES
TAGS: ENRG, NI
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006